

**VILLAGE OF VANDALIA, MICHIGAN**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**



**REHMANN ROBSON**

*Certified Public Accountants*

# Village of Vandalia

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

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## INDEPENDENT AUDITORS' REPORT

December 8, 2008

Honorable President and  
Members of the Village Council  
Village of Vandalia, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of the Village of Vandalia, Michigan (the "Village"), as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Village of Vandalia, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of the Village of Vandalia, Michigan as of February 29, 2008 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2008, on our consideration of the Village of Vandalia Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Village of Vandalia, Michigan has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

## **BASIC FINANCIAL STATEMENTS**

# Village of Vandalia

## Statement of Net Assets

February 29, 2008

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 109,012
Taxes receivable	12,839
Due from other governments	15,629
Due from others	4,800
Capital assets:	
Not being depreciated	57,949
Being depreciated, net	<u>358,581</u>
<b>Total assets</b>	<u>558,810</u>
<b>Liabilities</b>	
Accounts payable	4,791
Due to other governments	<u>965</u>
<b>Total liabilities</b>	<u>5,756</u>
<b>Net assets</b>	
Invested in capital assets	416,530
Restricted for:	
Highways and streets	5,895
Community development	5,309
Unrestricted	<u>125,320</u>
<b>Total net assets</b>	<u><u>\$ 553,054</u></u>

The accompanying notes are an integral part of these financial statements.

# Village of Vandalia

## Statement of Activities

For the Year Ended February 29, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
<b>Governmental activities</b>				
General government	\$ 107,552	\$ 649	\$ -	\$ (106,903)
Public safety	4,221	2,395	-	(1,826)
Public works	54,021	1,950	96,707	44,636
Health and welfare	100	-	-	(100)
Community and economic development	350	-	-	(350)
Culture and recreation	6,607	-	-	(6,607)
Other functions	6,716	-	-	(6,716)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total governmental activities	<u>\$ 179,567</u>	<u>\$ 4,994</u>	<u>\$ 96,707</u>	<u>(77,866)</u>
General revenues:				
Property taxes				56,920
State shared revenue				49,086
Unrestricted investment earnings				831
Other revenue				918
				<u>          </u>
Total general revenues				<u>107,755</u>
Change in net assets				29,889
Net assets, beginning of year				<u>523,165</u>
<b>Net assets, end of year</b>				<u><u>\$ 553,054</u></u>

The accompanying notes are an integral part of these financial statements.

# Village of Vandalia

## Balance Sheet Governmental Funds

February 29, 2008

	<b>General Fund</b>	<b>Major Streets</b>	<b>Local Streets</b>	<b>Community Development Block Grant</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 3	\$ 35,907	\$ 34,428	\$ 600	\$ 70,938
Taxes receivable	12,839	-	-	-	12,839
Due from other governments	8,705	4,836	2,088	-	15,629
Due from others	4,800	-	-	-	4,800
Due from other funds	13,544	1,925	-	4,709	20,178
<b>Total assets</b>	<b>\$ 39,891</b>	<b>\$ 42,668</b>	<b>\$ 36,516</b>	<b>\$ 5,309</b>	<b>\$ 124,384</b>
<b>Liabilities</b>					
Accounts payable	4,512	-	-	-	4,512
Due to other governments	965	-	-	-	965
Due to other funds	58,864	35,884	37,405	-	132,153
Deferred revenue	4,800	-	-	-	4,800
<b>Total liabilities</b>	<b>69,141</b>	<b>35,884</b>	<b>37,405</b>	<b>-</b>	<b>142,430</b>
<b>Fund balances (deficit)</b>					
Unreserved- undesignated	(29,250)	6,784	(889)	5,309	(18,046)
<b>Total liabilities and fund balances</b>	<b>\$ 39,891</b>	<b>\$ 42,668</b>	<b>\$ 36,516</b>	<b>\$ 5,309</b>	<b>\$ 124,384</b>

The accompanying notes are an integral part of these financial statements.



## Village of Vandalia

### Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

February 29, 2008

Fund deficit - total governmental funds	\$ (18,046)
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add - capital assets not being depreciated	57,949
Add - capital assets being depreciated, net	332,796

Certain assets, such as long-term receivables are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.

Add - deferred long-term receivable	4,800
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of internal service funds are included in governmental activities.

Add - net assets of governmental activities accounted for in internal service funds	<u>175,555</u>
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Net assets of governmental activities	<u><u>\$ 553,054</u></u>
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The accompanying notes are an integral part of these financial statements.

# Village of Vandalia

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

**For the Year Ended February 29, 2008**

	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Community Development Block Grant</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 56,920	\$ -	\$ -	\$ -	\$ 56,920
Intergovernmental revenues:					
State	49,086	32,823	16,851	-	98,760
Federal	-	-	-	47,033	47,033
Licenses and permits	2,395	-	-	-	2,395
Charges for services	3,349	-	-	-	3,349
Interest earnings	107	724	-	-	831
Other	1,068	-	-	-	1,068
	<u>112,925</u>	<u>33,547</u>	<u>16,851</u>	<u>47,033</u>	<u>210,356</u>
Total revenues					
	<u>112,925</u>	<u>33,547</u>	<u>16,851</u>	<u>47,033</u>	<u>210,356</u>
<b>Expenditures</b>					
Current:					
General government	93,914	-	-	-	93,914
Public safety	4,221	-	-	-	4,221
Public works	5,095	26,094	28,327	-	59,516
Health and welfare	100	-	-	-	100
Community and economic development	350	-	-	-	350
Recreation and cultural	18,313	-	-	-	18,313
Other functions	6,716	-	-	-	6,716
Capital outlay	7,500	-	-	70,087	77,587
	<u>136,209</u>	<u>26,094</u>	<u>28,327</u>	<u>70,087</u>	<u>260,717</u>
Total expenditures					
	<u>136,209</u>	<u>26,094</u>	<u>28,327</u>	<u>70,087</u>	<u>260,717</u>
Revenues (under) over expenditures	<u>(23,284)</u>	<u>7,453</u>	<u>(11,476)</u>	<u>(23,054)</u>	<u>(50,361)</u>
<b>Other financing sources (uses)</b>					
Transfers in	-	-	6,744	23,054	29,798
Transfers out	(23,054)	(6,744)	-	-	(29,798)
	<u>(23,054)</u>	<u>(6,744)</u>	<u>-</u>	<u>-</u>	<u>(29,798)</u>
Total other financing sources (uses)					
	<u>(23,054)</u>	<u>(6,744)</u>	<u>6,744</u>	<u>23,054</u>	<u>-</u>
Net change in fund balances	(46,338)	709	(4,732)	-	(50,361)
Fund balances, beginning of year	17,088	6,075	3,843	5,309	32,315
	<u>17,088</u>	<u>6,075</u>	<u>3,843</u>	<u>5,309</u>	<u>32,315</u>
<b>Fund balances (deficit), end of year</b>	<u><u>\$ (29,250)</u></u>	<u><u>\$ 6,784</u></u>	<u><u>\$ (889)</u></u>	<u><u>\$ 5,309</u></u>	<u><u>\$ (18,046)</u></u>

The accompanying notes are an integral part of these financial statements.

## Village of Vandalia

### Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended February 29, 2008

Net change in fund balances - total governmental funds	\$	(50,361)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - purchase of capital assets	42,194
Deduct - depreciation expense	(13,740)

Long-term receivable are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Deduct - decrease in long-term receivable	(900)
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Internal service funds are used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add - income from governmental activities in internal service fund	<u>52,696</u>
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Change in net assets of governmental activities	<u>\$</u>	<u>29,889</u>
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The accompanying notes are an integral part of these financial statements.

# Village of Vandalia

## Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual General Fund

For the Year Ended February 29, 2008

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Taxes	\$ 50,000	\$ 50,000	\$ 56,920	\$ 6,920
State shared revenue	50,500	50,500	49,086	(1,414)
Licenses and permits	1,000	1,000	2,395	1,395
Charges for services	3,200	3,200	3,349	149
Interest earnings	400	400	107	(293)
Other	1,300	1,300	1,068	(232)
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	106,400	106,400	112,925	6,525
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>				
Current:				
General government:				
Council	18,755	18,755	27,779	9,024
President	6,750	6,750	6,567	(183)
Clerk	18,070	18,070	16,368	(1,702)
Treasurer	3,430	3,430	3,366	(64)
Building and grounds	23,940	23,940	37,256	13,316
Cemetery	5,000	5,000	2,578	(2,422)
	<hr/>	<hr/>	<hr/>	<hr/>
Total general government	75,945	75,945	93,914	17,969
	<hr/>	<hr/>	<hr/>	<hr/>
Public safety:				
Building inspections	1,500	1,500	4,221	2,721
	<hr/>	<hr/>	<hr/>	<hr/>
Public works:				
Street lighting	4,500	4,500	5,095	595
	<hr/>	<hr/>	<hr/>	<hr/>
Health and welfare:				
Ambulance	500	500	100	(400)
	<hr/>	<hr/>	<hr/>	<hr/>
Community and economic development:				
Community promotion	700	700	350	(350)
	<hr/>	<hr/>	<hr/>	<hr/>
Culture and recreation:				
Parks and recreation	10,600	10,600	18,313	7,713
	<hr/>	<hr/>	<hr/>	<hr/>

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# Village of Vandalia

## Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Concluded) General Fund

For the Year Ended February 29, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Expenditures (concluded)</b>				
Current (concluded):				
Other functions:				
Insurance and bond	\$ 12,000	\$ 12,000	\$ 6,716	\$ (5,284)
Capital outlay	2,200	2,200	7,500	5,300
Total expenditures	107,945	107,945	136,209	28,264
Revenues (under) expenditures	(1,545)	(1,545)	(23,284)	(21,739)
<b>Other financing uses</b>				
Transfers out	(23,000)	(23,000)	(23,054)	(54)
Net change in fund balances	(24,545)	(24,545)	(46,338)	(21,793)
Fund balances, beginning of year	17,088	17,088	17,088	-
<b>Fund deficit, end of year</b>	<u>\$ (7,457)</u>	<u>\$ (7,457)</u>	<u>\$ (29,250)</u>	<u>\$ (21,793)</u>

The accompanying notes are an integral part of these financial statements.

# Village of Vandalia

## Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Major Streets Special Revenue Fund

For the Year Ended February 29, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>				
Intergovernmental revenue	\$ 29,000	\$ 29,000	\$ 32,823	\$ 3,823
Interest earnings	<u>1,600</u>	<u>1,600</u>	<u>724</u>	<u>(876)</u>
 Total revenues	 30,600	 30,600	 33,547	 2,947
<b>Expenditures</b>				
Current:				
Public works	<u>24,935</u>	<u>24,935</u>	<u>26,094</u>	<u>1,159</u>
 Revenues over expenditures	 5,665	 5,665	 7,453	 1,788
<b>Other financing uses</b>				
Transfers out	<u>(7,500)</u>	<u>(7,500)</u>	<u>(6,744)</u>	<u>756</u>
 Net change in fund balances	 (1,835)	 (1,835)	 709	 2,544
 Fund balances, beginning of year	 <u>6,075</u>	 <u>6,075</u>	 <u>6,075</u>	 <u>-</u>
 <b>Fund balances, end of year</b>	 <u><u>\$ 4,240</u></u>	 <u><u>\$ 4,240</u></u>	 <u><u>\$ 6,784</u></u>	 <u><u>\$ 2,544</u></u>

The accompanying notes are an integral part of these financial statements.

# Village of Vandalia

## Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Local Streets Special Revenue Fund

For the Year Ended February 29, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>				
Intergovernmental revenue	\$ 13,000	\$ 13,000	\$ 16,851	\$ 3,851
<b>Expenditures</b>				
Current:				
Public works	<u>19,735</u>	<u>19,735</u>	<u>28,327</u>	<u>8,592</u>
Revenues over expenditures	(6,735)	(6,735)	(11,476)	(4,741)
<b>Other financing sources</b>				
Transfers in	<u>7,500</u>	<u>7,500</u>	<u>6,744</u>	<u>(756)</u>
Net change in fund balances	765	765	(4,732)	(5,497)
Fund balances, beginning of year	<u>3,843</u>	<u>3,843</u>	<u>3,843</u>	<u>-</u>
<b>Fund balances (deficit), end of year</b>	<u><u>\$ 4,608</u></u>	<u><u>\$ 4,608</u></u>	<u><u>\$ (889)</u></u>	<u><u>\$ (5,497)</u></u>

The accompanying notes are an integral part of these financial statements.

**Village of Vandalia**

**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance -**  
**Budget and Actual**  
**Community Development Block Grant Special Revenue Fund**

**For the Year Ended February 29, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget</b>
<b>Revenues</b>				
Intergovernmental revenue	\$ 47,033	\$ 47,033	\$ 47,033	\$ -
<b>Expenditures</b>				
Current:				
Public works	70,033	70,033	70,087	54
Revenues over expenditures	(23,000)	(23,000)	(23,054)	(54)
<b>Other financing sources</b>				
Transfers in	23,000	23,000	23,054	54
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	5,309	5,309	5,309	-
<b>Fund balances, end of year</b>	<u>\$ 5,309</u>	<u>\$ 5,309</u>	<u>\$ 5,309</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.



# Village of Vandalia

## Statement of Fund Net Assets Proprietary Fund

February 29, 2008

	<b>Governmental Activities Internal Service Fund</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 38,074
Due from other funds	112,954
Total current assets	151,028
Noncurrent assets:	
Capital assets being depreciated, net	25,785
<b>Total assets</b>	<b>176,813</b>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	279
Due to other funds	979
<b>Total liabilities</b>	<b>1,258</b>
<b>Net assets</b>	
Invested in capital assets	25,785
Unrestricted	149,770
<b>Total net assets</b>	<b>\$ 175,555</b>

The accompanying notes are an integral part of these financial statements.

# Village of Vandalia

## Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Fund

For the Year Ended February 29, 2008

	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>Operating revenues</b>	
Charges for services	\$ 61,518
<b>Operating expenses</b>	
Personnel	981
Repairs and maintenance	2,471
Gas an oil	2,455
Depreciation	2,915
Total operating expenses	8,822
Change in net assets	52,696
Net assets, beginning of year	122,859
<b>Net assets, end of year</b>	<b>\$ 175,555</b>

The accompanying notes are an integral part of these financial statements.

# Village of Vandalia

## Statement of Cash Flows Proprietary Fund

For the Year Ended February 29, 2008

	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>Cash flows from operating activities</b>	
Cash payments to employees	\$ (981)
Cash payments to suppliers for goods and services	(4,073)
Net cash used in operating activities	(5,054)
<b>Cash flows from noncapital financing activities</b>	
Interfund loans to cover cash deficits	(35,239)
Net decrease in cash and cash equivalents	(40,293)
Cash and cash equivalents, beginning of year	78,367
<b>Cash and cash equivalents, end of year</b>	<b>\$ 38,074</b>
<b>Cash flows from operating activities</b>	
Operating income	\$ 52,696
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,915
Change in operating assets and liabilities which provided (used) cash:	
Due from other funds	(61,518)
Accounts payable	(126)
Due to other funds	979
Net cash provided by operating activities	<b>\$ (5,054)</b>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# Village of Vandalia, Michigan

## Notes to Financial Statements

For the Year Ended February 29, 2008

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Vandalia, Michigan (the “Village”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies:

#### *The Reporting Entity*

As required by generally accepted accounting principles, these financial statements present the Village and its component unit, an entity for which the Village is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the Village’s operations, so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the Village. The Village currently has no separate legal entities for which they are financial accountable.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After October 1 of each year, the County pays the Village, and is responsible for collecting, any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# Village of Vandalia, Michigan

## Notes to Financial Statements

### For the Year Ended February 29, 2008

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Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

The *General Fund* is the Village's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as major streets in the Village.

The *Local Streets Fund* is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as local streets in the Village.

The *Community Development Block Grant Fund* is used to account for expenditures of the federal Community Development Block Grant.

Additionally, the Village reports the following fund type:

The *Internal Service Fund* accounts for equipment and vehicle purchases, repairs and maintenance and other costs provided to the Village departments on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

# **Village of Vandalia, Michigan**

## **Notes to Financial Statements**

### **For the Year Ended February 29, 2008**

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Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

#### ***Budgets and Budgetary Accounting***

Comparisons to budget are presented for General and Special Revenue Funds. General and Special Revenue Funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to February 1, the Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. By the second week of February the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the Village are governed by Public Act 621, which was followed during the year ended February 29, 2008. The appropriations resolution is based on the projected expenditures budget of the department heads of the Village. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the Village Council. The Village President is authorized to transfer budgeted amounts within an activity subject to the condition that the total expenditures do not exceed the approved appropriations by activity. Supplemental appropriations were necessary during the year.

The appropriated budget is prepared by fund and function. The legal level of budgetary control is the functional level. Transfers of appropriations between functions require the approval of the Village Council. There were no amendments made to the budget during the current fiscal year.

#### ***Cash and Cash Equivalents***

For the purpose of the statement of cash flows, the Village considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

# **Village of Vandalia, Michigan**

## **Notes to Financial Statements**

**For the Year Ended February 29, 2008**

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### ***Investments***

Act 217, PA 1982, authorizes the Village to deposit and invest in:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools are authorized by Public Act 20 as amended through December 31, 1997.

The Village's investment policy does not exceed the state's limited authorized investment types.

### ***Receivables***

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances are immaterial at year end.

### ***Due to/from Other Funds***

During the course of its operations, the Village has numerous transactions between funds to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund accounts receivable or payable have been recorded.

### ***Due from Others***

Due from others represents an amount receivable from a former employee in connection with a misappropriation of funds discovered in 2001. The unpaid balance of the receivable is deferred in the fund financial statements due to the uncertainty as to the timing of repayment.



# Village of Vandalia, Michigan

## Notes to Financial Statements

For the Year Ended February 29, 2008

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### *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in the proprietary fund.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	60
Building Improvements	30
Equipment	5 to 15
Office Equipment	7

### *Deferred Revenue*

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue associated with long-term receivables amounted to \$4,800.

### *Property Taxes*

Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 15. These summer tax bills include the Village's own property taxes and taxes billed on behalf of the school district (State Education Tax) within the Village limits. Real property taxes not collected as of May 1 are returned to the County for collection, which advances the Village 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

# Village of Vandalia, Michigan

## Notes to Financial Statements

For the Year Ended February 29, 2008

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### *Interfund Transactions*

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

### *Risk Management*

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 29, 2008, the Village carried commercial insurance to cover all risks of losses. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

## **2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted on the activity level in the General Fund and the function level in other funds.

During the year ended February 29, 2008, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
General Fund:			
General government	\$ 75,945	\$ 93,914	\$ 17,969
Public safety	1,500	4,221	2,721
Public works	4,500	5,095	595
Culture and recreation:	10,600	18,313	7,713
Capital outlay	2,200	7,500	5,300
Major Streets Fund:			
Public works	24,935	26,094	1,159
Local Streets Fund:			
Public works	19,735	28,327	8,592
Community Development Block			
Grant Fund:			
Public works	23,000	23,054	54

# Village of Vandalia, Michigan

## Notes to Financial Statements

For the Year Ended February 29, 2008

### 3. ACCUMULATED FUND DEFICITS

As of February 29, 2008, the General and Local Streets Special Revenue funds had accumulated fund deficits of \$29,251 and \$889, respectively. The deficits will be eliminated through future operations and transfers.

### 4. DEPOSITS

Cash and cash equivalents in the amount of \$109,011 are reported on the statement of net assets as of February 29, 2008. These deposits are in one financial institution located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the Village and a specific fund or common account. They are recorded in Village records at cost. Interest is recorded when earned.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year-end, \$9,637 of the Village's bank balance of \$109,637 was exposed to custodial credit risk because it was uninsured and uncollateralized.

### 5. CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2008 was as follows:

	<b>Balance</b> <b>February 28, 2007</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance</b> <b>February 29, 2008</b>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 57,949	\$ -	\$ -	\$ 57,949
Capital assets being depreciated:				
Buildings	336,084	18,841	-	354,925
Building improvements	39,331	-	-	39,331
Equipment	132,901	23,353	-	156,254
Office equipment	6,908	-	-	6,908
Total capital assets being depreciated	515,224	42,194	-	557,418

# Village of Vandalia, Michigan

## Notes to Financial Statements

For the Year Ended February 29, 2008

	Balance February 28, 2007	Additions	Dispositions	Balance February 29, 2008
<b>Governmental activities (continued)</b>				
Less accumulated depreciation for:				
Buildings	\$ 121,523	\$ 8,837	\$ -	\$ 130,360
Building improvements	5,469	1,311	-	6,780
Equipment	51,214	5,520	-	56,734
Office equipment	3,976	987	-	4,963
Total accumulated depreciation	182,182	16,655	-	198,837
Capital assets being depreciated, net	333,042	25,539	-	358,581
<b>Net governmental activities capital assets</b>	<b>\$ 390,991</b>	<b>\$ 25,539</b>	<b>\$ -</b>	<b>\$ 416,530</b>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 10,992
Public works	2,748
Capital assets held by the government's internal service fund are charges to the various functions based on their usage of assets	2,915
<b>Total depreciation expense – governmental activities</b>	<b>\$ 16,655</b>

## 6. INTERFUND TRANSACTIONS

Transfers in and out for the year ended February 29, 2008 are as follows:

	Transfers In		
	Local Streets Fund	Community Development Block Grant Fund	Total
<b>Transfers Out</b>			
General Fund	\$ -	\$ 23,054	\$ 23,054
Major Streets Fund	6,744	-	6,744
	<b>\$ 6,744</b>	<b>\$ 23,054</b>	<b>\$ 29,798</b>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

# Village of Vandalia, Michigan

## Notes to Financial Statements

For the Year Ended February 29, 2008

The composition of interfund balances as of February 29, 2008, was as follows:

	Due From				Total
	General Fund	Major Streets Fund	Community Development Block Grant Fund	Internal Service Fund	
<b>Due To</b>					
General Fund	\$ -	\$ -	\$ 4,709	\$ 54,155	\$ 58,864
Major Streets Fund	6,467	-	-	29,417	35,884
Local Streets Fund	6,098	1,925	-	29,382	37,405
Internal Service Fund	979	-	-	-	979
	<u>\$ 13,544</u>	<u>\$ 1,925</u>	<u>\$ 4,709</u>	<u>\$ 112,954</u>	<u>\$ 133,132</u>

### 7. SUBSEQUENT EVENT

On April 30, 2008, the Village issued new Capital Improvement Bonds in the amount of \$70,000 to mature at various dates through April 1, 2028. Interest will be paid semi-annually at 4.125% on April 1 and October 1 of each year beginning October 1, 2008.

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## **INTERNAL CONTROL AND COMPLIANCE**



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

December 8, 2008

Honorable President and  
Members of the Village Council  
Village of Vandalia, Michigan

We have audited the financial statements of the governmental activities, each major fund and the remaining fund information of the Village of Vandalia, Michigan (the "Village"), as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents and have issued our report thereon dated December 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

### **Finding 2008-1 – Preparation of Financial Statements in Accordance with GAAP**

<b>Criteria:</b>	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
<b>Condition:</b>	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of various year end accruals and other adjustments, as well as the drafting of the financial statements and footnotes as part of its external financial reporting process.
<b>Cause:</b>	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
<b>Effect:</b>	As a result of this condition, the Village's internal accounting records were initially misstated by amounts material to the financial statements. In addition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
<b>View of Responsible Officials:</b>	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

### **Finding 2008-2– Material Audit Adjustments**

<b>Criteria:</b>	Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
<b>Condition:</b>	During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the Village's general ledger to the appropriate balances. These adjustments included recording revenue and receivables for shared sales and road taxes distributed by the State, property tax revenue and receivables and capital asset disposals and depreciation in the Equipment Pool Fund.



### **Finding 2008-2– Material Audit Adjustments (Continued)**

<b>Cause:</b>	This condition was the result of various oversights by management in reconciling the general ledger and closing out the fiscal year.
<b>Effect:</b>	As a result of this condition, the Village’s accounting records were initially misstated by amounts material to the financial statements.
<b>Recommendation:</b>	We recommend that the Village reconcile all general ledgers to subsidiary detail on a monthly basis in order to have a more accurate financial picture throughout the year.
<b>View of Responsible Officials:</b>	The Village considered the initial submittals to the auditor to be preliminary and the Village typically requests assistance from the auditors in making final adjustments. The Village will consider retaining additional year-end accounting assistance to correct this situation.

### **Finding 2008-3 – Segregation of Incompatible Duties**

<b>Criteria:</b>	Management is responsible for establishing effective internal controls to safeguard the Village’s assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government’s unique circumstances.
<b>Condition:</b>	As is the case with many municipalities of similar size, the Village lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. Events of recent year have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, by not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government’s internal control carries with it a greater risk of fraud and abuse.
<b>Cause:</b>	This condition is a result of the Village’s limited resources, and the small size of its accounting staff.

### **Finding 2008-3 – Segregation of Incompatible Duties (Continued)**

**Effect:** As a result of this condition, the Village is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

**Recommendation:** While there are no easy answers to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.

**View of Responsible Officials:** The Village Council is aware of the risks associated with this condition, and has made the determination that given the Village's limited resources, full segregation of duties is not feasible at this time. Accordingly, the Village Council will continue to review monthly information to mitigate this risk, and rely on the annual external audit to help identify and correct misstatements, as needed.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider each of the significant deficiencies described above to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did not audit Village of Vandalia, Michigan's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Village Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.





# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

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December 8, 2008

To the Village Council  
Village of Vandalia  
Vandalia, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *Village of Vandalia* (the “*Village*”) for the year ended February 29, 2008, and have issued our report thereon dated December 8, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated August 2, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Village. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Village’s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on June 23, 2008.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. As described in Finding 2008-2 included in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* attached to the Village's audited financial statements, we proposed numerous material audit adjustments, all of which were recorded by management, and which individually and in the aggregate had a material effect on the Village's financial reporting process.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 8, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Village of Vandalia* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.